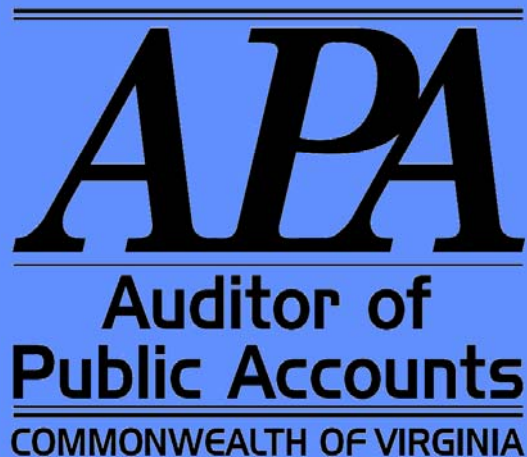


**VIRGINIA POLYTECHNIC INSTITUTE
AND STATE UNIVERSITY**

**INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED
JUNE 30, 2010**



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Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

December 28, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
And Review Commission

Dr. Charles W. Steger
President, Virginia Polytechnic Institute and
State University

INDEPENDENT AUDITOR'S REPORT ON APPLICATION OF AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Virginia Polytechnic Institute and State University**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.16.1, for the year ended June 30, 2010. The University's management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs and the Schedule's compliance with NCAA requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed documentation of accounting systems and operating procedures. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audits of the University's financial statements.

2. We reviewed an organizational chart provided by Intercollegiate Athletics Department management and discussed it with appropriate personnel. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, and protection of records and equipment.
3. The University provided us with their procedures for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the Intercollegiate Athletics Programs.

Affiliated and Outside Organizations

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations and provided us with copies of audited financial statements for each such organization for the reporting period.
5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the Intercollegiate Athletics Programs by affiliated and outside organizations included in the Schedule.
6. We obtained any additional reports regarding internal control matters identified during the independent audits of affiliated and outside organizations and inquired as to the corrective action taken in response to such comments. We noted that the affiliated organizations had been audited by independent public accountants and we were not made aware of any internal control findings.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

7. We obtained the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) for the year ended June 30, 2010, as prepared by the University and shown in this report. We recalculated the addition of the amounts on the Schedule, traced the amounts on the Schedule to management's worksheets, and agreed the amounts on management's worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Intercollegiate Athletics Department's accounts in the accounting records and the amounts on the worksheets. We discussed the nature of work sheet adjustments with management and are satisfied that the adjustments are appropriate.
8. We applied certain analytical review techniques to the balances reported on the Schedule in order to determine the reasonableness of amounts reported therein. These techniques included trend analyses and other tests using operating data and review of actual amounts expended in comparison to budgeted amounts.

Revenues

9. We compared each major revenue account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.
10. Intercollegiate Athletics Department management provided us with a reconciliation of tickets sold during the reporting period along with complimentary tickets and unsold tickets to the revenue recorded in the Schedule and related attendance figures. We reviewed these reconciliations for selected games and found such reconciliations to be accurate and agreed to amounts recorded as ticket revenue for those games.

11. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be materially in agreement.
12. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for away games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found that revenue was properly computed and deposited promptly and intact.
13. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Department from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. We confirmed payments made on behalf of Intercollegiate Athletics Programs with the Virginia Tech Foundation, Incorporated and ensured those payments were properly reported in the Schedule. Except for contributions received from the Virginia Tech Foundation, Incorporated, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for intercollegiate athletics.
14. From the summary of revenues and expenses for or on behalf of the Intercollegiate Athletics Programs by affiliated and outside organizations, we selected and tested receipts of such revenue and agreed each selection to supporting documentation and proper posting in the accounting records. We found all reviewed transactions to be in agreement.
15. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We inspected the agreements and verified the mathematical accuracy and coding of the distribution amounts. We found that revenue was properly computed and deposited promptly and intact.
16. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from broadcast, television, radio, and internet rights. We inspected the agreements and verified the mathematical accuracy and coding of the revenue amounts. We found that revenue was properly computed and deposited promptly and intact.
17. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from royalties, advertisements, and sponsorships. We selected and tested receipts of such revenue and, for those items; we inspected the agreements and verified the mathematical accuracy and coding of the payment amounts. We found that revenue was properly computed and deposited promptly and intact.
18. Based on receipts as listed in the accounting records, we selected and tested collections by the Intercollegiate Athletics Programs. We compared and agreed the selected operating receipts to adequate supporting documentation. We found all reviewed amounts to be in agreement with supporting documentation and properly recorded in the accounting records.

Expenses

19. We compared each major expense account to prior period amounts and budget estimates. We obtained and documented an understanding of all significant variances.

20. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. We selected individual student athletes across all sports and agreed amounts from the listing to their award letter. We also ensured that the total aid amount for each sport materially agreed to amounts reported as Financial Aid in the student accounting system.
21. Intercollegiate Athletics Department management provided us with settlement reports and game guarantee agreements for home games during the reporting period. We reviewed these settlement reports and guarantee agreements for selected games and verified the mathematical accuracy and coding of the settlement reports and game guarantee agreements. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.
22. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals and compared amounts paid for one pay period or a bonus payment from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
23. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the third-parties during the reporting period. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
24. Intercollegiate Athletics Department management provided us with a listing of severance payments made during the reporting period. We reviewed these amounts for reasonableness; however, since these payments in total were immaterial, we did not complete any detailed testing.
25. We discussed the University's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies.
26. Based on disbursements as listed in the accounting records, we selected and tested payments to third parties by the Intercollegiate Athletics Programs. These disbursements were for supplies, equipment, travel, and other general expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, in agreement with supporting documentation, and properly recorded in the accounting records.

We were not engaged to, and did not; conduct an examination, the objective of which would be the expression on an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we made an audit of any financial statements of the Intercollegiate Athletics Department of Virginia Polytechnic Institute and State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report relates only to the accounts and items specified above and does not extend to the financial statements of Virginia Polytechnic Institute and State University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

JS/alh

SCHEDULE

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2010

	Football	Men's Basketball	Women's Basketball	Men's Other Sports	Women's Other Sports	Non-Program Specific	Total
Operating revenues:							
Ticket sales	\$ 13,990,100	\$ 2,606,440	\$ 144,393	\$ -	\$ -	\$ -	\$ 16,740,933
Student fees	-	-	-	-	2,140,348	4,393,408	6,533,756
Guarantees	2,341,501	70,000	-	-	4,500	-	2,416,001
Contributions	8,711,428	769,241	795,468	1,556,328	1,946,116	2,360,185	16,138,766
Third party support	185,000	-	-	-	-	-	185,000
Direct institutional support	-	-	-	-	-	372,303	372,303
NCAA/conference distributions							
including tournament revenues	5,856,210	4,613,008	29,688	119,401	110,744	1,352,141	12,081,192
Broadcast, television, radio, and internet rights	2,827,187	753,917	188,479	-	-	-	3,769,583
Program, concession, and novelty sales, and parking	1,079,262	157,381	24,151	23,476	12,805	360,434	1,657,509
Royalties, advertisements and sponsorships	526,408	151,998	86,711	92,500	92,000	376,649	1,326,266
Endowment and investment income	596,236	130,307	129,087	471,513	669,636	213,831	2,210,610
Other	10,755	-	-	52,254	52,254	66,283	181,546
Total operating revenues	<u>36,124,087</u>	<u>9,252,292</u>	<u>1,397,977</u>	<u>2,315,472</u>	<u>5,028,403</u>	<u>9,495,234</u>	<u>63,613,465</u>
Operating expenses:							
Athletic student aid	2,447,050	463,587	514,741	1,786,440	2,478,724	780,137	8,470,679
Guarantees	500,000	381,979	107,684	7,405	13,462	-	1,010,530
Coaching salaries, benefits, and bonuses	4,880,280	1,478,381	656,105	1,609,364	1,315,175	-	9,939,305
Coaching compensation and benefits paid by a third party	185,000	-	-	-	-	-	185,000
Support staff/administrative salaries, benefits and bonuses	1,053,630	188,330	122,132	69,280	94,254	6,682,959	8,210,585
Severance payments	10,135	26,576	343	20,789	13,177	6,901	77,921
Recruiting	236,628	197,269	139,550	191,310	158,683	-	923,440
Team travel	1,434,579	462,390	244,651	743,843	733,655	-	3,619,118
Equipment, uniforms and supplies	405,067	186,475	180,356	263,755	220,074	46,599	1,302,326
Game expenses	1,469,328	280,300	180,421	155,005	104,482	341,861	2,531,397
Fund raising, marketing and promotions	330,263	307,573	146,396	71,846	60,700	430,211	1,346,989
Direct facilities, maintenance, and rental	6,484,978	403,809	404,135	191,731	133,136	6,395,707	14,013,496
Spirit groups	428,735	49,796	10,612	6,606	10,465	140,345	646,559
Medical expenses and medical insurance	154,196	32,181	17,669	212,957	169,222	153,640	739,865
Memberships and dues	1,610	915	899	4,398	4,132	24,434	36,388
Other	1,249,504	294,766	110,260	177,020	126,026	727,458	2,685,034
Total operating expenses	<u>21,270,983</u>	<u>4,754,327</u>	<u>2,835,954</u>	<u>5,511,749</u>	<u>5,635,367</u>	<u>15,730,252</u>	<u>55,738,632</u>
Excess (deficiency) of revenues/ over (under) expenses	<u>\$ 14,853,104</u>	<u>\$ 4,497,965</u>	<u>\$ (1,437,977)</u>	<u>\$ (3,196,277)</u>	<u>\$ (606,964)</u>	<u>\$ (6,235,018)</u>	<u>\$ 7,874,833</u>

The accompanying Notes to the Schedule of Revenues and Expenses of
Intercollegiate Athletics Programs are an integral part of this Schedule.

VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY
NOTES TO THE SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
AS OF JUNE 30, 2010

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs has been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the University for the year ended June 30, 2010. The Schedule includes those intercollegiate athletics revenues and expenses made in behalf of the University's athletics programs by outside organizations not under the accounting control of the University. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in fund balances, or cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-Program Specific."

2. AFFILIATED ORGANIZATIONS

The University received \$17,914,338 from the Virginia Tech Foundation, Incorporated. Approximately \$8,470,679 of these funds were for grant-in-aid scholarships for student-athletes. These amounts received are included in the accompanying schedule as follows: \$16,138,766 is included in the Contributions line item and \$1,775,572 is included in the Endowment and Investment Income line item.

3. LONG-TERM DEBT

In October 1996, a revenue bond of \$6,250,000 was issued for the Athletics Department. This bond was issued for athletics facility improvements. The majority of this debt was refinanced in May 2004 with a \$4,155,000 revenue bond. This bond has an outstanding balance of \$2,685,000 and will be repaid with general operating revenues through 2016.

In October 2001, a \$26,285,000 note was issued for the Athletics Department. This note was issued for the South End Zone addition to Lane Stadium. This note has an outstanding balance of \$13,710,000 and will be repaid with private fund raising and operating revenues through 2027. Part of this debt was refinanced in January 2008 with a \$2,860,000 note that will be repaid through 2020 and has an outstanding balance of \$2,845,000.

In May 2004, a \$52,715,000 revenue bond was issued for the Athletics Department. This bond was issued for the West Side Expansion to Lane Stadium which was substantially completed in 2006. This bond has an outstanding balance of \$39,295,000 and will be repaid with private fund raising and operating revenues through 2029.

In November 2009, a \$8,705,000 note was issued for the Athletics Department. This note was issued for the Hahn Hurst Basketball Practice Center which was substantially complete in 2009. This note has an outstanding balance of \$8,705,000 and will be repaid with private fund raising and operating revenues through 2030.

A summary of future principal and interest commitments for fiscal years subsequent to June 30, 2010 is presented as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,645,000	\$ 3,207,869	\$ 5,852,869
2012	2,740,000	3,100,506	5,840,506
2013	2,865,000	2,977,950	5,842,950
2014	3,000,000	2,840,509	5,840,509
2015	3,145,000	2,695,650	5,840,650
2016-2020	15,875,000	9,922,019	25,797,019
2021-2025	19,620,000	6,956,413	26,576,413
2026-2030	<u>17,350,000</u>	<u>1,919,206</u>	<u>19,269,206</u>
Total	<u>\$ 67,240,000</u>	<u>\$ 33,620,122</u>	<u>\$ 100,860,122</u>

4. UNIVERSITY ADMINISTRATION FEE

As with all auxiliary enterprises, the University charges the Athletics Department an administrative fee. During the fiscal year, the Department paid \$2,808,762 to the University. This amount is included as direct facilities, maintenance, and rental, and includes \$62,636 in football, and \$2,746,126 in the non-program specific category.

5. CAPITAL ASSETS

Capital assets consisting of buildings, infrastructure, and equipment are stated at appraised historical cost or actual cost where determinable. Construction in progress is capitalized at actual cost as expenses are incurred. The major activity in construction in progress relates to the construction of the addition to the Jamerson Center and the completion of the Hahn-Hurst Basketball Practice Facility. All gifts of capital assets are recorded at fair market value as of the donation date.

Equipment is capitalized when the unit acquisition cost is \$2,000 or greater and the estimated useful life is one year or more. Renovation costs are capitalized when expenses total more than \$100,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense in the year the expense is incurred.

Depreciation is computed using the straight-line method over the useful life of the assets. The useful life is 40 to 60 years for buildings, 10 to 50 years for infrastructure and land improvements, and three to 30 years for fixed and movable equipment.

A summary of changes in capital assets follows for the year ending June 30, 2010 (dollars in thousands):

	Beginning			Ending
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Depreciable capital assets				
Buildings	\$ 121,148	\$ 6,488	\$ -	\$ 127,636
Moveable equipment	4,301	453	233	4,521
Fixed equipment	6,800	18	-	6,818
Infrastructure	<u>15,845</u>	<u>-</u>	<u>-</u>	<u>15,845</u>
Total depreciable capital assets, at cost	<u>148,094</u>	<u>6,959</u>	<u>233</u>	<u>154,820</u>
Less accumulated depreciation:				
Buildings	\$ 23,519	\$ 2,810	\$ -	\$ 26,329
Moveable equipment	2,906	337	197	3,046
Fixed equipment	4,134	239	-	4,373
Infrastructure	<u>10,787</u>	<u>1,039</u>	<u>-</u>	<u>11,826</u>
Total accumulated depreciation	<u>41,346</u>	<u>4,425</u>	<u>197</u>	<u>45,574</u>
Total depreciable capital assets, net of accumulated depreciation	<u>106,748</u>	<u>2,534</u>	<u>36</u>	<u>109,246</u>
Non-depreciable capital assets				
Construction in progress	<u>17,859</u>	<u>11,701</u>	<u>26,949</u>	<u>2,611</u>
Total capital assets, net of accumulated depreciation	<u>\$ 124,607</u>	<u>\$ 14,235</u>	<u>\$26,985</u>	<u>\$ 111,857</u>

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Blacksburg, Virginia

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